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The Director of Central Intelligence  
Washington, D.C. 20505

National Intelligence Council

NIC #02345-84  
16 April 1984

JCS review completed.

MEMORANDUM FOR: Director of Central Intelligence  
Deputy Director of Central Intelligence

FROM: Maurice C. Ernst  
National Intelligence Officer for Economics

SUBJECT: NSC Stockpile Study

1. I recommend that you sign the attached pro forma memorandum to McFarlane, giving your concurrence on the planning assumptions of the stockpile study prior to their consideration by the President.

2. The working group reports of the NSC stockpile study are an improvement over the previous methodology used by the Federal Emergency Management Agency (FEMA) in 1976 and updated in 1979. At the same time, serious flaws remain:

- Few think the war scenario used (a three-year conventional war in Europe, the Middle East and Korea) is realistic, but in broad terms it is mandated by Congress.
- The wartime economic simulations were done on the Wharton econometric model, which uses peacetime data and parameters.
- Military programs are costed in terms of broad categories only; direct and indirect import requirements are inputted using the Wharton model.
- There are data only on direct purchases by DoD; purchases by defense contractors cannot be traced.

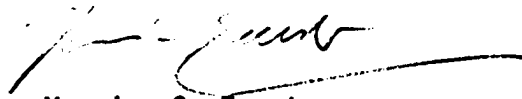
On the whole, the current study probably makes the best of a bad situation, which will not improve until better data can be collected on which to base serious mobilization planning.

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3. The Intelligence Community's main contribution to the study was an assessment of the reliability of foreign suppliers in wartime. I chaired an interagency working group, which included DIA, State, CIA, OMB and FEMA, with DIA making the largest input.

4. You may wish at least informally (for example, at your regular weekly meeting with McFarlane) to raise your concerns about the broader issue of US dependence on foreign sources, not only for minerals, but also for key manufactures and technology. We may find that processing capacity in key manufacturing industries will be potentially a more difficult problem than minerals for future defense production planning.

5. I am told that the final stockpile recommendations are to be discussed at a Cabinet meeting in about two weeks.



Maurice C. Ernst

Attachments:

NSC Memo dtd 11 April 84  
NIO Econ Memo dtd 11 Jan 84  
Memo for DCI signature

CONCUR:

\_\_\_\_\_  
Director of Central Intelligence

\_\_\_\_\_  
Date

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**Central Intelligence Agency**



Washington, D.C. 20505

**MEMORANDUM FOR: Assistant to the President for  
National Security Affairs**

**SUBJECT: National Security Council Stockpile Study--  
Working Group Reports**

My staff has reviewed and concurs in the general approach and planning assumptions to be used for establishing national defense stockpile goals and industrial preparedness planning.

**William J. Casey  
Director of Central Intelligence**

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**NATIONAL SECURITY COUNCIL**  
WASHINGTON, D.C. 20506

ON-FILE NSC RELEASE INSTRUCTIONS APPLY

April 11, 1984

Executive Registry

84-1352/2

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**MEMORANDUM FOR**

**MR. CHARLES HILL**  
Executive Secretary  
Department of State

**MR. THOMAS B. CORMACK** ✓  
Executive Secretary  
Central Intelligence Agency

**MR. CHRISTOPHER HICKS**  
Executive Secretary  
Department of the Treasury

**MS. JUDY JOHNSTON**  
Director of Administration  
Office of Policy Development

**COL. (P) JOHN STANFORD**  
Executive Secretary  
Department of Defense

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Member, President's Council  
of Economic Advisors

**MR. RICHARD MORRIS**  
Executive Assistant to  
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Department of the Interior

**BRIG. GENERAL GEORGE A. JOULWAN**  
Executive Assistant to the Chairman  
Joint Chiefs of Staff

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General Services Administration

**MR. WILLIAM VITALE**  
Executive Secretary  
Department of Energy

**MR. LOUIS O. GIUFFRIDA**  
Director, Federal Emergency  
Management Agency

**MR. ALTON KEEL**  
Associate Director for  
National Security and  
International Affairs  
Office of Management and Budget

**MR. CHARLES SIEGMAN**  
Associate Director  
Federal Reserve Board

**MR. FRED J. VILLELLA**  
Secretariat, Emergency Mobilization  
Preparedness Board

**SUBJECT:** Agency Comments on the NSC Stockpile  
Study's Working Group Reports (U)

National defense stockpile goals and industrial preparedness planning are currently rooted in assumptions and procedures of the previous Administration. In July 1982, President Reagan signed NSDD-47 which established general principles for mobilization preparedness and directed a thorough review of mobilization related programs and policies. In May 1983, the Joint Chiefs of Staff transmitted wartime planning scenarios which were adopted by the Emergency Mobilization Preparedness Board (EMPB). (U)

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DCI  
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Since June 1983, the National Security Council has chaired an inter-agency group to undertake a comprehensive review of the National Defense Stockpile and associated issues involving the Mobilization Preparedness Industrial Base. The Assistant to the President for National Security Affairs approved the wartime scenario involving full mobilization and the Secretary of Defense has provided estimates of DOD wartime expenditures. All working group reports have been approved at the Assistant Secretary level by those agencies and departments involved in the study, as planning factors for the stockpile and the related mobilization preparedness base. The Stockpile Study recommendations have been endorsed by the Assistant to the President for National Security Affairs and, upon receipt of Secretarial comments, will be forwarded to the President for review and approval. (U)

Attached are the EMPB wartime scenario adopted by Judge Clark for planning for a one-year mobilization three-year war (Tab A), and the defense expenditure estimates provided by Secretary Weinberger for this scenario (Tab B). Also attached are copies of the final reports of the working groups on shipping loss factors (Tab C), wartime reliability of minerals exporting nations (Tab D), the U.S. GNP planning level (Tab E), energy (petroleum) supply and price projections (Tab F), and domestic and international minerals supply which were derived from the wartime scenarios and defense expenditure estimates (Tab G). These reports made the following recommendations: (U)

### Scenario

The scenario (based on EMPB Scenario 3A) assumes full mobilization for a three-year war following a one-year warning. The maximum force level is about 5 million men with theatres of combat in Europe, the Middle East and Korea. (S)

Previous Presidential guidance in the 1976 Stockpile Study envisioned two theatres of combat with maximum forces during the three-year planning period of less than 4 million men. (S)

### Defense Expenditures

The Secretary of Defense endorsed a wartime defense expenditure pattern which reaches a peak of \$737 billion (1983\$)\*, a 310% increase over the 1982 level of \$179 billion. The SecDef has stated that DOD is undertaking a thorough review of defense requirements under Scenario 3A. DOD has advised the NSC that the current data are the best available and are suitable for policy decisions until the longer-term DOD study is completed. The longer term DOD study is expected to be completed in about eighteen months.

The 1976 stockpile study selected wartime expenditures which peak at \$597B. (S)

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\* The above defense numbers have been converted from 1972 dollars with 1972 dollars being used in the actual study.

**Wartime Reliability of Mineral Exporting Nations****GNP Planning Levels**

The CEA-Treasury-OMB Working Group undertook a series of simulations of the wartime economy under Administration economic policy assumptions. They estimated that, even with substantial petroleum shortages, the wartime economy could grow at an annual 5% rate, sufficient to produce defense output and to meet civilian needs. (U)

Present stockpile goals are premised on assumptions of lower defense spending and a robust civilian wartime expansion with high levels of personal consumption. (U)

**Energy**

CIA, DOE, FEMA, DOD and OMB comprised the Energy Working Group. The EMPB scenario envisions a major disruption of petroleum supplies from the Middle East because of military activity. The Energy Working Group has estimated that petroleum prices would rise substantially throughout the scenario with resulting adverse impacts on oil-consuming nations. For the U.S., the petroleum loss would be partially offset by increased production of other fuels. (U)

Present stockpile goals are based on different assumptions that oil prices rise very little throughout most of the war from peacetime levels. (U)

**Domestic and International Material Supply**

The Bureau of Mines has provided estimates of possible wartime supplies of the most significant stockpile commodities. They have also estimated the likely domestic production increase from concerted national programs such as were realized under the Defense Production Act in the Korean War. (U)

Present stockpile goals assume that government demand for critical minerals and concerted DPA programs will be unsuccessful in bringing on required new capacity. (U)

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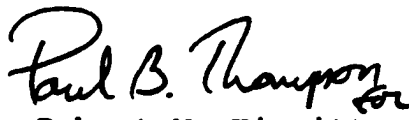
### Shipping

A Navy, OSD, JCS, FEMA, OMB Working Group reviewed recent assessments of likely wartime damage to commercial shipping under the EMPB scenario. The conclusion of the group was that given the Administration's naval rearmament program, sea lane attrition losses would be comparable to the overall World War II loss level of 3%, with economic shipping experiencing even lower losses. (S)

The previous mobilization planning study made the assumptions that only 1-2% of each raw material destined for civilian consumption would be lost at sea, while 100% of the same material destined for producing military weapons would be lost. (U)

The Steering Group of the Stockpile Study has resolved the objections to the above studies which have been received from Assistant Secretary-level officials of concerned agencies. The attached reports represent the most significant planning assumptions to be used, as appropriate, for the stockpile and related industrial preparedness programs and investigations. The reports will be forwarded to the President with the recommendation that they be adopted for appropriate federal mobilization planning activities. Please provide comments and Department positions on each working group report for Presidential consideration not later than four working days from the date of this memorandum. Department comments should be at the Secretarial level.

Final Stockpile Goals will also be sent for Secretarial comments before being forwarded to the President. (U)

  
Robert M. Kimmitt  
Executive Secretary

### Attachments

Tab A	EMPB Wartime Scenario
Tab B	Defense Expenditure Estimates
Tab C	Shipping Loss Factors
Tab D	Wartime Reliability of Minerals Exporting Nations
Tab E	U.S. GNP Planning Level
Tab F	Energy Supply and Price Projections
Tab G	Domestic and International Minerals Supply



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